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News

# Government reduced the budget addition by \$10.7 trillion for 2023

May 31, 2023

 [Government reduced the budget addition by \\$10.7 trillion for 2023](#)

THE MINISTRY of Finance, Ricardo Bonilla, decided to lower the budget addition that he initially intended from \$25.4 trillion to \$14.7 trillion, due to the effects of the good direction that the fiscal deficit is taking and the increase in tax collection that for This year it should reach 17.2% of GDP against 15.1% in 2022.

Although, in the first instance, it was contemplated that part of the debt with **Ecopetrol** would be paid from the budget addition by the resources of the Fuel Price Stabilization Fund (FEPC) of around \$18 billion pending by 2022, the Government ruled out that possibility .

The minister stated that "this was an entanglement that did not allow progress in the addition. We want to release a transparent addition and decided to separate the two themes. The FEPC payment has nothing to do with a budget addition".

"It is good that the way to pay **Ecopetrol** is adjusted; to review what really goes against budget and what does have to go through the hands of the company".

With this, the plan of the Ministry of Finance is that the budget addition be approved in June to use the resources from July, and not cross accounts with **Ecopetrol**.

## Debt

The Treasury portfolio plans to pay the entire debt with **Ecopetrol**, which amounts to US\$5,800. The Government had already agreed to pay \$18 billion (US\$4,000 million) of the debt in its 2023 budget. But the Ministry wants to go further there and pay the full amount due for 2022 subsidies.

Bonilla indicated that dividends and the payment of the FEPC for \$18 billion are included in the budget for 2023. "We don't need to do any crossing of accounts. It is about reaching an agreement with **Ecopetrol** and we decided to hold a joint table with the Ministry of Mines and Energy, **Ecopetrol** and the Ministry of Finance".

The initial plan was for the state company to retain the dividend that it would have paid to the National Government. However, for this to happen, a bill would have to be approved and the ordinary sessions of Congress end on June 20, spaces that are full of debates on health, pension and labor reforms.

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According to the Treasury portfolio, by 2022 the country's collection meant only 15.1% and placed the country



third from last on the list, and only surpassed Argentina (10.3%) and Mexico (13.6%).

On the other hand, he confirmed that the way the FEPC deficit will be reduced this year will be through increases in gasoline prices.

### **Gasoline hikes**

On twitter he shared that "the plan to reduce the deficit of the Fuel Price Stabilization Fund has been underway since October 2022. We need to regulate the price of gasoline with international standards in order to level ourselves."

**Juan Camilo Pardo, Corficolombiana analyst, explained that "the General Budget of the Nation is \$405 billion and with the increase it would be around \$420 billion for the current year."**

David Cubides, director of Economic Research at Alianza Valores, highlighted that the fact that the addition is less than the amount of the initial proposal shows that the deficit figures could improve.

However, the analyst also highlights something that the minister pointed out, "the numbers with which the financial plan was made with which the General Budget of the Nation was updated in January have to do with much higher oil and that it is not I saw such a strong slowdown process".

**In this sense, "in the end it could give us a slightly higher deficit in the aggregate, the second effects may be stronger than the first and the deficit is between 4% and 4.2% instead of that 3.8% that had been discussed." Similarly, Cubides stressed that this is within what is allowed by the fiscal rule.**

Pardo also indicated that the factor of brent prices. "To comply with the fiscal rule, the limit is 4.3%. The Government must be evaluating how far this deficit should go, taking into account the new source of income".

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The expert highlighted the fact that the addition is intended for sectors that may not face a very favorable economic outlook for the second half of this year.

### **Settings**

In the first week of May, when taking stock of the finances, the Minister of Finance stressed that "the National Government is in a process of adjusting the prices of liquid fuels in the country in order to reduce the negative effect on the public finances of the FEPC, which reached a deficit of \$37 billion in 2022".

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**It points out that "in general, public spending allocated to paying lower prices for fossil fuels in the domestic market is distributed to a greater extent to households with higher incomes in the country and, therefore, is inequitable. There is no doubt that the reduction of the generalized and regressive subsidy contributes to better organize social spending, which is a priority in the recently approved 2022-2026 Development Plan".**

He states that "in addition, fuel subsidies discourage energy transition and diversification of the economy. Within the framework of this process, the national government headed by the Ministry of Finance and Public Credit, the Ministry of Mines and Energy and the **Ecopetrol** group will hold joint technical roundtables to

evaluate different alternatives. This seeks to contribute in a fiscally responsible manner to the gradualness of the process hand in hand with a transparent strategy in the management of fuel subsidy prices and the opportunity cost of supplying the national market”.

**The financial portfolio assures that “additionally, the review of the scheduled price adjustment seeks to identify in better detail which consumer groups can target some type of specific subsidy. So then the proposals that emerge from the table will be focused on mitigating the effects on the population of the lowest income percentiles”.**

It also explains that “currently, the national government is analyzing different alternatives to mitigate the impact of the FEPC on public finances: i) the establishment of differential stabilization mechanisms, ii) greater controls on fuels distributed with economic and tax benefits in areas of border; and iii) regulatory reviews that, in the framework of the discussion with all the actors of the fuel policy, make it possible to identify efficiencies in the sector”.

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### **Tax overcompliance**

The Colombian Ministry of Finance revealed that the National Central Government (GNC) achieved an overachievement of the fiscal deficit goal for the year 2022, being, in addition, the lowest figure in the last three years.

**According to the report presented by the Ministry, the total fiscal deficit of the Colombian Government closed last year at levels of 5.3% of the Gross Domestic Product (GDP).**

This figure is less than the 5.5% of GDP that had been set as a goal in the Financial Plan presented in December 2022.

“It is positive, since the reduction in the deficit was higher than expected, and it is a reflection of the recovery that the economy presented and the growth in tax collection,” said Juan David Ballén, director of research at Casa de Bag.

**And he pointed out that: “these figures would not have an impact on the credit rating since the country’s indebtedness, one of the indicators on which the rating depends, continues at historically high levels,” he pointed out.**

In that Financial Plan, the following was estimated: “The fiscal deficit of the National Central Government (GNC) in 2022 would be located at 5.5% of the Gross Domestic Product (GDP), with a fiscal adjustment of 1.6 percentage points of GDP compared to to the deficit registered in 2021 (7.1%). This result represents an overcompliance with the fiscal rule of 2.9% of GDP and includes the payment of an additional \$4 trillion to finance the deficit of the Fuel Price Stabilization Fund (FEPC). Thanks to the reduction of the fiscal deficit, the GNC debt would be reduced from 60.8% of GDP in 2021 to 59.6% in 2022”.

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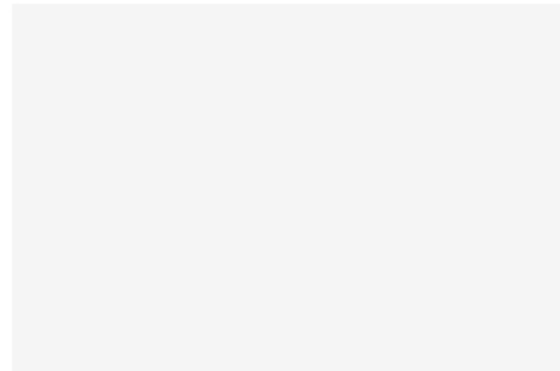
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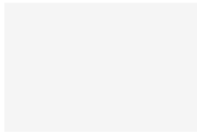
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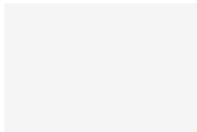
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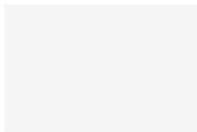
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